



# **ORDINANCE: CONSTRUCTION EXCISE TAX FOR AFFORDABLE HOUSING**

November 7, 2017 Regular Session

# Housing Needs in the City



- Housing Emergency Declared in 2016
  - Housing prices and rents increasing over 20-40 percent throughout the city
- Shortfall of affordable homes and rents upwards of 900 units citywide
- Dearth of Affordable Housing developers/development in Clackamas County
- Housing Affordability: 2017-2019 Council Goal established in April 2017 in response to the regional housing crisis
- Tools are needed to assist in the development of additional housing options
- Requests for waivers/reductions in permit and System Development Charges

# What is the Construction Excise Tax (CET) for affordable housing (SB 1533)?

SB 1533B was passed in the 2016 legislation to allow cities to require a certain portion of new housing units that are rented or sold as affordable (a policy known as “inclusionary zoning”), and allow cities and counties to enact a Construction Excise Tax for an affordable housing funding source for communities.

KEY PROVISIONS OF SB 1533B: The CET is on construction of new structures or construction adding square footage to an existing structure.

Cities and Counties may impose a CET on:

- Residential construction, at a rate of 1% of the value of the permit value of the construction or addition;
- New commercial and industrial construction, with no cap on the rate of the CET.

# CET—REVENUE ALLOCATION FOR RESIDENTIAL DEVELOPMENT

*The local government imposing the CET may retain 4% of the CET revenues as a fee for administering the tax. After this fee, the residential CET revenues are to be distributed as follows:*

- 50% to developer incentives as set out in Section 1 of the bill
- 15% to Housing and Community Services Department to fund homeownership programs that provide down payment assistance
- 35% for affordable housing programs and incentives as defined by the local jurisdiction

*For a CET imposed on commercial or industrial development, 50% of revenues after the administrative fee must be expended on programs related to housing*

# RECOMMENDATION--RESIDENTIAL

Staff proposes that a Milwaukie CET program be established in the following manner:

- 1 percent of permit valuation for new and additional square footage of residential construction.
- 1 percent of permit valuation on new commercial or industrial development.

The collected Residential Tax revenue will be distributed as follows:

- 15 percent to the State Housing and Community Services Department.
- 50 percent for developer incentives for building affordable housing at 80 percent or below of median family income (MFI) and should include SDC and Permit Waivers and discounts on the public area requirements, when applicable.
- 35 percent for programs and incentives of the city toward affordable housing 60 percent and should include SDC and Permit Waivers and discounts on the public area requirements, when applicable.



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# RECOMMENDATION--COMMERCIAL

The collected Commercial Tax Revenue would be distributed as follows:

- 50 percent for affordable housing incentives for housing projects between 80 to 120 percent of MFI and should include SDC and Permit Waivers and discounts on the public area requirements, when applicable.
- 50 percent for economic development programming citywide with emphasis placed on areas that the city has adopted plans in place (e.g. North Milwaukie Industrial Area Plan, Moving Forward Milwaukie Plan, Economic Development Strategy, and South Downtown Plan)



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# EXEMPTIONS TO CET

## **Required State Exemptions:**

- Affordable Housing at or Below 80% MFI
- Public Improvements Under Public Contracting Code
- Schools, Hospitals, Worship, Agriculture, Non-Profit Care

## **Recommended Additional Exemptions:**

- Affordable For-sale Housing—at or below 80 percent MFI
- Accessory Dwelling Units for 5 years
- Improvements when value is less than \$100,000



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# ORDINANCE DISCUSSION

- Establish Chapter 3.60 in the Municipal Code: Affordable Housing Construction Excise Tax
- Chapter 3.60 outlines the dedication of revenue, appeal process, and enforcement.







Questions?